Brymore Oil & Gas Ltd.

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1995 Annual Report

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BRYMORE OIL & GAS LTD. IS ENGAGED IN THE ACQUISITION, EXPLORATION, DEVELOPMENT AND PRODUCTION OF OIL AND GAS RESERVES IN WESTERN CANADA. IN ADDITION, THE COMPANY IS THE AGENT FOR TWO U.S. BASED POWER GENERATION FACILITIES AND MANAGES THEIR CANADIAN SOURCED NATURAL GAS SUPPLY.

BRYMORE IS COMMITTED TO INCREASING SHAREHOLDER VALUE THROUGH SUCCESSFUL EXPLORATION AND DEVELOPMENT COMPLEMENTED WITH STRATEGIC PROPERTY ACQUISITIONS. BRYMORE'S GROWTH IS GUIDED BY A BOARD OF DIRECTORS, EACH OF WHOM HAS A SIGNIFICANT STAKE IN THE COMPANY.

BRYMORE'S COMMON SHARES ARE LISTED ON THE ALBERTA STOCK EXCHANGE UNDER THE TRADING SYMBOL BXL.

The Cover

BXL is Brymore's trading symbol and will soon be our new name. At the upcoming Annual and Special Meeting of Shareholders, the shareholders will vote on a name change to BXL Energy Ltd.

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Highlights

Years ended December 31	1995	1994	Change
Financial *($ except common shares)*			
Oil and gas sales	**684,000**	–	–
Gas management contract fees	**354,000**	396,000	(10)%
Net earnings	**214,000**	23,000	830%
per share	**0.02**	–	–
Funds from operations	**463,000**	240,000	93%
per share	**0.03**	0.02	50%
Capital expenditures	**2,156,000**	876,000	146%
Working capital	**396,000**	572,000	(31)%
Property and equipment	**3,585,000**	1,831,000	96%
Long term debt	**1,139,000**	–	–
Common shares outstanding	**13,599,000**	12,654,000	7%
Operations			
Production (annual average)			
Oil (bbls/day)	**77**	–	–
Natural gas (mcf/day)	**97**	–	–
Equivalent barrels (boe/day)	**87**	–	–
Production (exit rates)			
Oil (bbls/day)	**132**	–	–
Natural gas (mcf/day)	**300**	–	–
Equivalent barrels (boe/day)	**162**	–	–
Reserves			
Proven			
Oil (mbbls)	**224**	130	72%
Natural gas (mmcf)	**1,807**	1,504	20%
Proven & probable			
Oil (mbbls)	**289**	278	4%
Natural gas (mmcf)	**3,577**	3,094	16%
Undeveloped land			
Gross acres	**54,040**	7,673	604%
Net acres	**8,681**	2,421	259%

Annual Meeting

The Annual and Special Meeting of Shareholders of Brymore Oil & Gas Ltd. will be held on Tuesday, May 21, 1996 at 3:00 p.m. in the Cardium Room at the Calgary Petroleum Club located at 319 - 5th Avenue S.W., Calgary, Alberta.

Brymore achieved significant operating gains in 1995. From January to December, average daily production rates doubled and undeveloped land holdings increased exponentially. Cash flow from operations increased 93% when compared to 1994 and net earnings increased nine-fold. Most importantly, we completed the year with a growth oriented property portfolio.

1995 in Review

Our primary objective for 1995 was to complete a major property acquisition which would satisfy strict internal criteria relating to cash flow, growth potential and geographic location. Although our unwavering commitment to these criteria prolonged the identification and evaluation process, our patience was rewarded in September with the completion of the $1.55 million Gift/Little Horse acquisition. Initial production from the area was 71 barrels of light sweet crude oil per day. More importantly, Brymore acquired an interest in 43,000 acres (5,600 net) of undeveloped mineral rights and an extensive proprietary seismic data base. The seismic database includes a number of conventional seismic surveys and in excess of 60 square miles of 3-D seismic. This advanced seismic technology will be employed to improve the success of adding new reserves.

A secondary objective was to tap the value of Brymore's shut-in gas reserves at Sugden and Tweedie. This objective was partially achieved. In September, one of two Sugden gas wells commenced production at a rate of 300 thousand cubic feet per day, net to Brymore. Tweedie, which at 12 sections is a relatively large project, was intentionally delayed due to uncertain gas prices.

A third objective for 1995 was the investment in exploration opportunities identified in core areas. The combination of uncertain gas prices and the time required to identify and complete the Gift/Little Horse acquisition sharply reduced the number of prospects which met our criteria. In early 1995, Brymore drilled its second gas well at Sugden. In December, we initiated a three well recompletion program at Little Horse, the last of which was completed in January 1996.

Capital expenditures totalled $2,156,000 during 1995, most of which were incurred at Gift/Little Horse, Sugden and, to a lesser extent, Tweedie. This program was funded by a combination of cash flow from operations, bank borrowings, a $450,000 private placement of unsecured redeemable convertible debentures and a $378,000 private placement of flow-through common shares.

Production volumes during 1995 averaged 77 barrels of oil and 97 thousand cubic feet of natural gas per day. December 1995 average daily production was 132 barrels of oil and 300 thousand cubic feet of natural gas.

The gas management contract operations contributed revenue of $412,000 during 1995. This included a non-recurring gain of $58,000 received in connection with the reorganization of this line of business.

For 1995, Brymore generated cash flow from operations of $463,000 ($0.03 per share) and net earnings of $214,000 ($0.02 per share). This compares favourably to 1994 cash flow of $240,000 and net earnings of $23,000.

Strategies for Growth

In 1994, Brymore implemented a strategy to become a low cost finder and producer of oil and gas reserves. In 1995, the first significant step was taken. We are now invested in a small number of select core areas which ensures the highest degree of management expertise is applied to each. Our working interests are increasing, we operate wherever possible, and our largest core areas offer exciting exploration and acquisition opportunities.

Brymore will continue to evaluate prospects that can generate cash flow within a shorter time period. As the Company grows, the near term requirement for cash flow will give way to longer term, higher growth opportunities. This evolution will also result in a production profile with an intended balance between oil and natural gas.

To ensure success has a direct impact on shareholder value, Brymore's capital structure will be carefully managed. The dilutive effect of issuing equity to fund growth will be balanced against the risk of increasing leverage.

Outlook

Brymore is well positioned to take advantage of opportunities generated in 1995 as well as those presented in 1996. The first two months of 1996 have set the pace of an active year. To date, Brymore has participated in three wells (0.74 net) resulting in an oil well at Gift, a gas well at Tweedie and an abandonment at Little Horse. In addition, we acquired additional interests at Gift and increased our interest in the Tweedie project to 40% from 33%. Furthermore, the Tweedie gathering system was completed in anticipation of construction of the gas processing facility in the summer.

In 1996, Brymore will enhance shareholder value by increasing reserves, production and cash flow. The primary focus will be to maximize value in existing core areas through exploration and development and purchases of additional interests. Concurrently, we will actively pursue major property acquisitions and corporate combinations.

Acknowledgements

Throughout the year, the hard work of Brymore's employees and consultants often does not get the recognition it deserves. We would like to take this opportunity to thank each of them. We sincerely appreciate it.

We are also fortunate to receive the guidance of three non-management directors. The advice of these gentlemen continues to be one of our most valued assets.

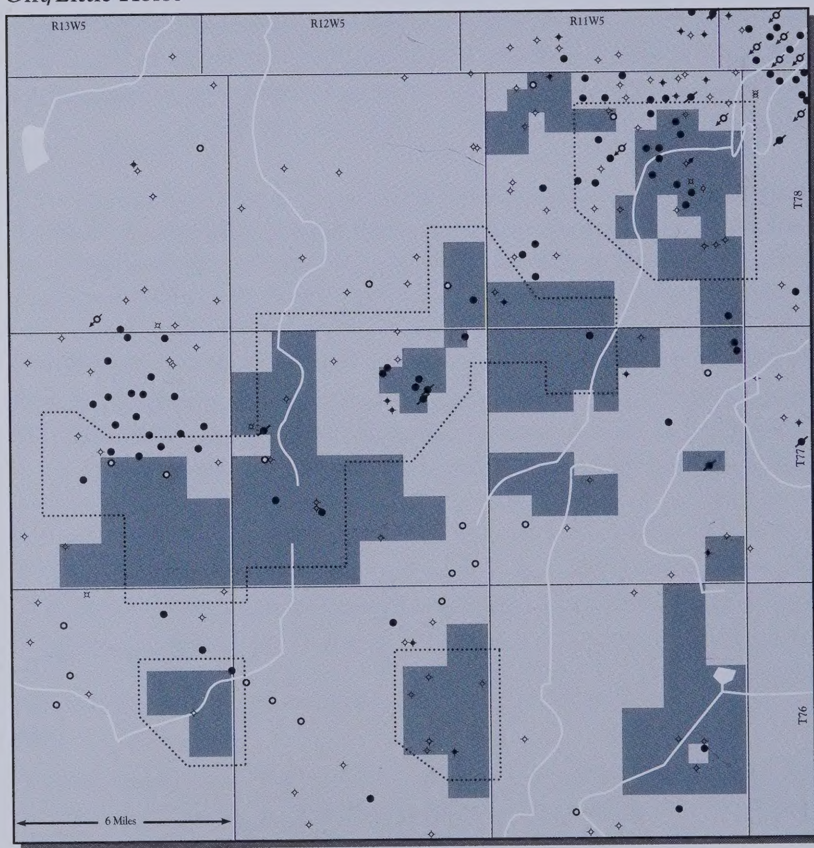
Bruce G. McIntyre
President and Chief Executive Officer

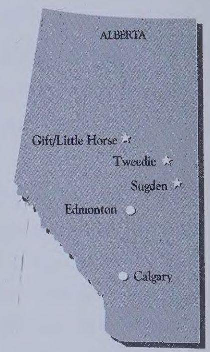
Michael J. Makinson
Vice President and Chief Financial Officer

March 22, 1996

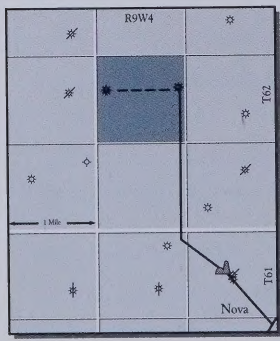
Alberta Core Areas

Gift/Little Horse

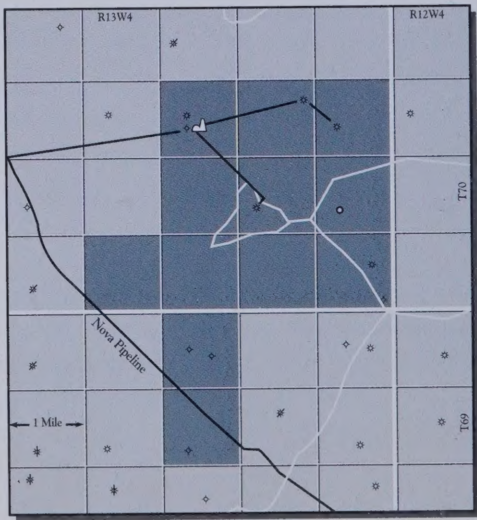




Sudgen



Tweedie



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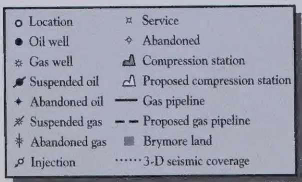

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Nineteen ninety-five was a pivotal year for Brymore Oil & Gas Ltd. Brymore entered the year with no production revenue and two shut in gas properties. We exited 1995 with oil production from the Gift/Little Horse areas of northern Alberta and the Kisbey/Redvers areas of southeast Saskatchewan and natural gas production from the Sugden property. Natural gas production from the Tweedie property is expected to commence in the summer of 1996.

Gift/Little Horse

In September 1995, Brymore completed an acquisition of properties in the oil prone Gift/Little Horse area for $1.55 million and acquired additional smaller interests effective January 1, 1996. The area is located approximately 180 miles northwest of Edmonton, just north of Lesser Slave Lake.

The properties include working interests in 20 oil wells and related gathering, processing and disposal facilities. During March 1996, these wells produced approximately 100 barrels of oil per day net to Brymore. We estimate this base production to be 159,000 barrels of proven reserves representing most of the value attributed to the purchase price. However, the strength of the acquisition is in the potential of the undeveloped acreage and seismic. In addition to the reserves, Brymore acquired various interests in over 66 sections of undeveloped Crown lands (approximately 43,000 gross acres, 5,600 net acres) and proprietary rights to an extensive seismic data base. The 60 square miles of 3-D seismic data acquired would be financially prohibitive for a company of Brymore's size to duplicate. The infrastructure, undeveloped acreage, seismic data base and management's understanding of the complex geology gives Brymore a clear competitive advantage in the area.

The area is very active and currently there are 11 wells licensed, drilling or recently completed within one mile of Brymore working interest lands. During the first quarter of 1996, Brymore participated in two wells – one successful oil well and one abandonment. The oil well will be completed for production early in the second quarter. We plan to participate in three additional wells before spring break up.

In addition to drilling, Brymore participated in a five square mile 3-D seismic program in early 1996. Locations identified as a result of the seismic interpretation will be drilled in late 1996 or early 1997. The wells target the Devonian age Gilwood sandstone at depths ranging from 1800 to 2000 metres. Every effort will be made to increase our interest in wells that we feel have the greatest chance for success.

Wells in the Gift/Little Horse area produce an average of 100 barrels of oil per day and wells capable of 350 barrels per day are not uncommon. Drilling success will have a significant impact on Brymore's production and cash flow. With modest success, Brymore's production in the area will be 250 barrels of oil per day by the end of 1996 and optimistically could be significantly higher.

Undeveloped Land
(as at January 1, 1996)

	Gross Acres	Net Acres
Gift/Little Horse	42,880	5,605
Tweedie	2,560	1,024
Gooseberry	1,280	320
Wildmere	640	320
Leduc	200	200
Other	6,480	1,212
	54,040	**8,681**

Undeveloped lands increased by 604% during 1995, from 7,673 gross acres at the beginning of the year to 54,040 at the end of the year. On a net acre basis, our position increased by 259% from 2,421 acres to 8,681 acres.

Sugden

In the Sugden area, which is located approximately 80 miles northeast of Edmonton, Brymore holds a 37.5% interest in two gas wells and an 11.25% interest in a nearby compression and dehydration facility. One of the wells is tied into the facility and is producing natural gas at an average daily rate of 800 thousand cubic feet per day (300 thousand cubic feet per day net). Although the well was production tested from both the Colony and Wabiskaw zones, current production is from the Colony zone only. The Wabiskaw reserve will be produced when the Colony shows signs of depletion. The second well, which is shut in, was production tested and initial deliverability is estimated to be 800 thousand cubic feet of natural gas per day. This well can be tied in to offset declines of the producing well or to capitalize on higher gas prices.

Tweedie

Effective January 1, 1996, Brymore increased its interest to 40% from 33% in this 12 section prospect located just north of Lac La Biche, Alberta. During the first quarter of 1996, a successful gas well was drilled and the gathering system was constructed. The property now includes five shut-in gas wells, all of which have been completed and flow-tested. Four of the five wells will be on stream by the third quarter of 1996. Additional locations exist on the block and will be drilled as required. Independent engineers have assigned 3.0 billion cubic feet of proven and probable reserves to Brymore's interest in the property.

Kisbey/Redvers

Brymore holds small working interests in the Kisbey and Redvers oil pools, both of which are located southeast of Regina.

The Kisbey pool includes approximately 40 vertical and 10 horizontal oil wells. Brymore's share of production from this area is currently 38 barrels of oil per day. The pool experienced sharper than anticipated declines and, as a result, the reserve base was adjusted downwards. An aggressive rework program has been initiated to stem the declines. Brymore owns an interest in the associated gathering and processing facilities and, as a result, enjoys relatively high netbacks.

The Redvers pool, located approximately 35 miles southeast of the Kisbey pool, includes six vertical oil wells and four horizontal wells. Brymore's working interest share of production is currently 10 barrels of oil per day.

Reserves

Evaluation

In 1995, Brymore increased its proven oil reserves by 72% from 130,000 to 224,000 barrels. Our oil reserve additions were realized primarily through the Gift/Little Horse acquisition. Proven natural gas reserves increased by 20%, driven by a discovery at Sugden and the modest increase of our interest at Tweedie.

	Company Interest Reserves Before Royalty		Estimated Before Tax Present Value of Future Cash Flows ($000's)		
	Oil	Gas	Discounted @		
Reserve Category	(mbbls)	(mmcf)	10%	15%	20%
Proven producing	223	225	2,050	1,840	1,670
Proven non-producing	1	1,582	860	690	560
Probable	65	1,770	1,700	1,310	1,050
Total	**289**	**3,577**	**4,610**	**3,840**	**3,280**

Pricing Assumptions

Brymore's crude oil and natural gas reserves were evaluated by Gilbert Laustsen Jung Associates Ltd., Petroleum Consultants, effective January 1, 1996 using escalated pricing assumptions summarized below:

	WTI ($US/bbl)	Light Sweet Crude Edmonton ($Cdn/bbl)	Natural Gas ($Cdn/mcf)
1996	17.50	22.75	1.40
1997	18.00	23.25	1.55
1998	19.00	24.75	1.80
1999	20.00	26.00	2.00
2000	21.00	27.25	2.20
2001	21.50	28.00	2.40
2002	22.00	28.75	2.50
2003	22.50	29.25	2.65
Thereafter escalating by approximately 2%.			

Reconciliation of Reserves

Revisions of prior year estimates reflect a reduction of the proven oil reserves at Kisbey of 33,000 barrels due to steeper than expected decline rates. The revision of probable oil reserves is due in part to Kisbey (34,000 barrels), however, the largest portion of this revision is a result of not including the Leduc property in our January 1, 1996 reserve evaluations. Brymore's prior year reserve reports included 100,000 barrels of probable oil reserves for this property.

	Oil (mbbls)			Gas (mmcf)			Equivalent Barrels (mboe)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
January 1, 1995	130	148	278	1,504	1,591	3,095	280	307	587
Acquisitions	159	48	207	220	268	488	181	75	256
Discoveries and extensions	–	–	–	158	52	210	16	5	21
Production	(28)	–	(28)	(36)	–	(36)	(32)	–	(32)
Revisions of prior year estimates	(37)	(131)	(168)	(39)	(141)	(180)	(41)	(145)	(186)
January 1, 1996	**224**	**65**	**289**	**1,807**	**1,770**	**3,577**	**404**	**242**	**646**

Brymore operates in two distinct businesses. Our primary business is oil and gas acquisition, exploration, development and production operations in western Canada. In addition, the Company is the sole agent representing two eastern U.S. power generation facilities as it relates to the ongoing management of their natural gas supply. The components of each of these businesses are discussed separately.

Brymore experienced a number of significant changes during the fourth quarter of 1995 as compared to the first nine months of the year. Effective October 1, 1995, daily oil production more than doubled as a result of the $1.55 million Gift/Little Horse acquisition. In addition, Brymore's capitalization changed as a result of the debt taken on to finance the acquisition. Lastly, virtually all of the Company's 1995 natural gas sales occurred during the fourth quarter as a result of the commencement of production at Sugden.

Results of Operations

Nineteen ninety-five was Brymore's second complete year of operations and the first year in which oil and gas production revenue was recorded. As a result, the following analysis of oil and gas operations for 1995 is presented without prior year comparatives.

Oil and Gas Sales

Oil and gas revenues were $684,000 in 1995, 94% from the sale of oil and 6% from natural gas. Throughout the year, Brymore produced an average 77 barrels per day of oil and 97 mcf of natural gas. Average selling prices were $22.73 per barrel of oil and $1.17 per mcf of natural gas.

	Oil		Gas		Total	
	$000's	%	$000's	%	$000's	%
Sales	642	100	42	100	684	100
Royalties	(195)	(30)	(4)	(9)	(199)	(29)
Production	(136)	(21)	(4)	(10)	(140)	(21)
Field profit	311	49	34	81	345	50

Gas Management Contract Operations

Two power generation facilities located in the eastern United States have contracted Brymore to act as agent regarding the management of their Canadian sourced natural gas supply. In our capacity as agent, Brymore does not take title to natural gas volumes shipped or to pipeline capacity.

There are two components to Brymore's gas management contract fees. The first component is a per unit throughput fee which is applied to all gas volumes nominated by the power plants. Secondly, we share in the profits derived from the utilization of unused prepaid transportation. Specifically, on any day that either power plant is not nominating for the full contracted gas volume, Brymore may utilize the surplus pipeline capacity, with demand charges paid, to move gas volumes to alternate markets. Margins made from the utilization of surplus pipeline capacity are split as to 78% to the power plant owners and 22% to Brymore.

Gas management contract fees declined 10% in 1995 to $354,000 (1994 – $396,000). Of the total, the throughput fee component represented 54% (1994 – 37%) and the surplus transportation component accounted for 46% (1994 – 63%). The power plants received higher nominations for electricity in 1995 compared to 1994, which in turn caused a commensurate increase in natural gas throughput. Total revenues declined because the throughput fee is not as profitable as the utilization of unused transportation.

During 1995, Brymore restructured its gas management contract operations to eliminate activities which, while requiring an ongoing investment, were not likely to generate revenue in the foreseeable future. Highlights of the restructuring include the receipt of $58,000, the redemption of Brymore's outstanding class B non-voting shares and the cancellation of a non-competition agreement executed in favour of Brymore. This transaction does not affect our existing agency agreements with the two eastern U.S. power generation facilities (see also Note 8 to the financial statements).

Royalties

Including the benefit of a minimal amount of Alberta Royalty Tax Credit, 1995 royalties were $199,000. This translates to an average of $6.25 per boe or 29% of sales. There are two reasons why Brymore's royalty rates are relatively high. Firstly, 75% of 1995 oil production came from the Kisbey and Redvers areas of Saskatchewan, which together have an all inclusive royalty rate of 34%. Secondly, existing production from the recently acquired Gift/Little Horse property does not qualify for Alberta Royalty Tax Credit. As Brymore increases production through drilling, primarily in Alberta, we expect our average royalty rate to decrease.

Summary of Production by Area

	Q1→Q3	Q4	1995
Oil (bbls/day)			
Little Horse	–	43	11
Gift	–	28	7
Kisbey	50	42	48
Redvers	12	10	11
	62	123	77
Gas (mcf/day)			
Sugden	–	386	97
Total (boe/day)	**62**	**162**	**87**

Operating Costs

Operating costs were $140,000 in 1995. On a per unit basis, 1995 operating expenses averaged $4.82 per barrel of oil and $0.12 per thousand cubic feet of natural gas for an overall rate of $4.42 per boe. Operations have been optimized at all of Brymore's properties except Little Horse. The Little Horse property was acquired with the knowledge that existing high operating costs could be reduced by the combination of increasing production through drilling and investing in infrastructure. We intend to pursue both avenues in 1996.

Netback Summary	Oil ($/bbl)	Gas ($/mcf)	boe ($/boe)
Selling price	22.73	1.17	21.50
Royalties	(6.91)	(0.10)	(6.25)
Production	(4.82)	(0.12)	(4.42)
Field netback	**11.00**	**0.95**	**10.83**

General and Administrative Expenses

Total general and administrative costs were $432,000 in 1995 (1994 – $349,000) broken down as to $302,000 expensed (1994 – $201,000) and $130,000 capitalized (1994 – $148,000). Two primary factors contributed to the $83,000 increase in total costs from 1994 to 1995. Firstly, the comparative figures reflect the costs of a private company. In January 1995, Brymore became a public company and incurred both ongoing costs as well as certain non-recurring expenditures. Secondly, increases in oil and gas production required an increase in personnel time which was satisfied through the use of consultants.

Brymore capitalizes a portion of general and administrative costs as they relate to the exploration and development of oil and gas reserves. During 1995, 30% of total administrative costs were capitalized as compared to 42% in 1994. Although this percentage varies from year to year and is dependant upon activity during the year, we expect the percentage of capitalized overhead to decline as the Company grows.

Depletion, Depreciation and Amortization

Depletion, depreciation and amortization expense increased 15% to $249,000 in 1995 from $217,000 in 1994. This expense is comprised of four components; oil and gas depletion and depreciation; a provision for future site restoration costs; depreciation of office equipment; and amortization of the carrying value of the gas management contracts. Including depreciation of office equipment, Brymore's 1995 depletion and depreciation rate was $7.30 per equivalent barrel of production. The 1994 expense was comprised primarily of an impairment to oil and gas properties. Lower depletion and depreciation unit rates are dependant upon Brymore achieving its objective of adding reserves at lower cost.

Depletion and Depreciation	
Proven reserves (boe)	404,000
Depletion and depreciation	$232,300
Site restoration	$14,700
Production (boe)	31,815
Depletion and depreciation rate (per boe)	$7.30
Site restoration rate (per boe)	$0.46
Depletion rate as a % of proven reserves	7.9%

Interest Expense

Interest expense was $21,000 in 1995 (1994 – nil). Most of this expense was incurred during the fourth quarter of the year in connection with debt taken on to finance the Gift/Little Horse acquisition. At year end 1995, Brymore's long term debt totalled $1,139,000 which includes bank debt of $689,000 and convertible debt of $450,000. These amounts are exclusive of year end cash of $374,000. Brymore expects 1996 interest expense to be substantially higher than the amount incurred in 1995. To reduce shareholder dilution, our financing strategy includes debt of between one and two years cash flow from operations.

Income Taxes

Brymore did not incur income tax expense for 1995 or 1994. At year end 1995, the Company had oil and gas tax pools of approximately $3.4 million available for deduction against future taxable income. In addition, Brymore has non-capital losses of $275,000 which expire during the years 1998 to 2002.

Future Tax Deductions *(at December 31, 1995)*

	Amount ($000's)	Annual Rate of Claim (%)
Canadian Exploration Expense	536	100
Canadian Development Expense	386	30
Canadian Oil and Gas Property Expense	1,854	10
Undepreciated Capital Cost	625	20-30
Non-Capital Losses	275	100
Other	50	20
	3,726	

Net Earnings and Cash Flow from Operations

Brymore's net earnings increased dramatically to $214,000 ($0.02 per share) in 1995 from $23,000 (nil per share) in 1994. Cash flow from operations increased 93% to $463,000 ($0.03 per share) from $240,000 ($0.02 per share). The single most important contributor to these increases was the commencement of oil and gas production in 1995. We expect earnings and cash flow increases of similar magnitudes over the foreseeable future as oil and gas production levels grow.

Capital Expenditures

During 1995, capital expenditures totalled $2,156,000 of which $1,552,000 was devoted to the Gift/Little Horse acquisition, $249,000 to the Sugden gas property and slightly less than $100,000 to Tweedie.

Capital Expenditures ($000's)	1995	1994
Property acquisitions	1,552	135
Land	40	68
Seismic	32	41
Drilling and completion	214	441
Facilities and equipment	177	–
Capitalized overhead, other	130	158
Office	11	33
Acquisition of subsidiary	–	594
	2,156	1,470

Liquidity and Capital Resources

Brymore's working capital position declined 31% to $396,000 at December 31, 1995 (1994 – $572,000) while long term debt increased to $1,139,000 (1994 – nil). Long term debt is comprised of a bank loan of $689,000 and convertible debentures totalling $450,000. Brymore has a $1.1 million revolving reducing loan facility with a Canadian chartered bank, the terms of which are reviewed annually.

Brymore has three sources of capital to fund its growth; internally generated cash flow, new equity and debt. Our strategy includes a limit to capital expenditures that can be funded from a combination of operating cash flow, equity and debt that can be repaid within two years. We expect debt levels to temporarily increase in early 1996 as infrastructure is completed to bring on additional natural gas production. Brymore utilizes financial instruments such as Bankers' Acceptances to reduce or pre-determine the Company's financing costs.

Capital Issues

In February 1995, Brymore completed a $378,000 private placement of units, priced at $0.40 per unit, each unit comprised of one flow-through common share and one-half of one common share purchase warrant. In December 1995, the Company completed a $450,000 private placement of unsecured convertible redeemable debentures, convertible into common shares at $0.40 per share.

Capital Resources ($000's)	1995	1994
Cash flow from operations	463	239
Change on non-cash working capital	(148)	(50)
Bank debt	500	–
Convertible debentures	450	–
Equity issues, net	370	547
Cash	513	734
Other	8	–
	2,156	1,470

At December 31, 1995, Brymore had 13,599,155 common shares outstanding and 2,927,500 shares reserved for future issuance. These shares are reserved for 1,330,000 stock options exercisable at $0.40 per share, 1,125,000 shares upon conversion of the convertible debentures at $0.40 per share and 472,500 shares upon conversion of common share purchase warrants at $0.55 per share.

Business Risks and Prospects

Business Risks

Brymore's primary business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the investment of manpower and capital do not necessarily result in the finding of reserves in economic quantities. There is risk that the sale of the Company's reserves may be prolonged or shut-in due to lack of markets or transportation constraints. Furthermore, the ultimate price Brymore receives for its oil and gas reserves fluctuates continuously and for the most part is beyond our control.

In addition to the risks associated with finding and selling reserves, Brymore is subject to the risks associated with owning and operating oil and gas properties, including environmental risks. In addition, Brymore endures two risks which are largely the result of our size. Firstly, Brymore operates in an industry which is comprised of competitors most of whom are much larger than Brymore. Secondly, the growth of the Company is dependant upon external sources of financing which may not always be available on acceptable terms.

Brymore's approach to managing these risks is straightforward. We concentrate exploration activities to a small number of areas where management can demonstrate both technical and managerial expertise. In addition, we acquire reasonable interests in each prospect and often operate the prospect. This helps to ensure that the cost and pace of development are within our control. As it relates to commodity pricing, Brymore has and will continue to enter into contractual arrangements to set a pre-determined price level.

In the field, we adhere to sound operational standards which meet or exceed recognized levels. As it relates to size, small may present a risk but it is also an asset. For example, Brymore's expenditure levels can be revised swiftly in response to changing commodity prices or financial market conditions.

Business Prospects

Our strategy has allowed us to complete 1995 with a portfolio of properties which provide both cash flow and excellent growth opportunities. We are confident that the momentum of the latter half of 1995 will continue into 1996 with positive results.

Management's and Auditors' Reports

Management's Report

All of the information in this annual report is the responsibility of management. The accompanying financial statements of Brymore Oil & Gas Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information elsewhere in the annual report has been reviewed to ensure consistency in all material respects with that in the financial statements.

Brymore Oil & Gas Ltd. maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

KPMG Peat Marwick Thorne, an independent firm of Chartered Accountants, has been engaged to examine the financial statements and provide their Auditors' Report. Their report is presented with the financial statements.

The Directors are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Directors exercise this responsibility through the Audit Committee. This committee, which is comprised of non-management Directors, meets with management and the external auditors to satisfy itself that management responsibilities are properly discharged and to review the financial statements before they are presented to the Directors for approval. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

M J Makinson

Michael J.Makinson
Vice President and Chief Financial Officer

February 28, 1996

Auditors' Report to the Shareholders

We have audited the balance sheets of Brymore Oil & Gas Ltd. as at December 31, 1995 and 1994 and the statements of operations and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Chartered Accountants

Calgary, Canada
February 28, 1996

Balance Sheets

	December 31, 1995	December 31, 1994
Assets		
Current assets		
Cash and term deposits	$ 373,515	$ 886,808
Accounts receivable	303,993	258,770
Prepaid expenses	–	2,598
	677,508	1,148,176
Property and equipment (Note 3)	3,585,333	1,831,493
Gas management contracts	8,960	11,000
Other assets	–	7,700
	$4,271,801	$2,998,369
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 281,736	$ 387,150
Bank loan	–	188,800
	281,736	575,950
Bank loan (Note 4)	688,870	–
Convertible debentures (Note 4)	450,000	–
Provision for site restoration costs	43,000	28,345
	1,463,606	604,295
Shareholders' Equity		
Share capital (Note 5)	2,806,312	2,606,216
Retained earnings (Deficit)	1,883	(212,142)
	2,808,195	2,394,074
	$4,271,801	$2,998,369

See accompanying notes

On behalf of the Board of Directors

Wieland F. Wettstein
Director

Donald G. Snyder
Director

Statements of Operations and Retained Earnings

	Year Ended December 31, 1995	1994
Revenue		
Oil and gas sales	$ 683,990	$ –
Royalties	(198,746)	–
	485,244	–
Gas management contract fees	354,187	395,562
Gain on disposition of gas management contract rights (Note 8)	58,241	–
Interest	28,878	45,529
	926,550	441,091
Expenses		
Production	140,498	–
General and administrative	302,378	201,346
Depletion, depreciation and amortization	249,000	216,611
Interest	20,649	–
	712,525	417,957
Net earnings	214,025	23,134
Deficit, beginning of year	(212,142)	(235,276)
Retained earnings (deficit), end of year	$ 1,883	$(212,142)
Net earnings per share (Note 7)	$ 0.02	$ –

See accompanying notes

Statements of Changes in Financial Position

	Year Ended December 31, 1995	1994
Cash provided by (used for)		
Operations		
Net earnings	$ 214,025	$ 23,134
Add charge not affecting cash		
Depletion, depreciation and amortization	249,000	216,611
Funds from operations	463,025	239,745
Net change in non-cash working capital	(148,039)	(50,388)
	314,986	189,357
Investing		
Expenditures on property and equipment	(2,156,145)	(875,958)
Acquisition of subsidiary, net of cash (Note 2)	–	(594,014)
Other assets	7,700	–
	(2,148,445)	(1,469,972)
Financing		
Issue of common shares	378,000	–
Increase in bank loan	500,070	–
Issue of convertible debentures	450,000	–
Redemption of class B non-voting shares (Note 8)	(1)	–
Issue of common shares to acquire subsidiary (Note 2)	–	594,836
Share issue costs	(7,903)	(47,923)
	1,320,166	546,913
Decrease in cash	(513,293)	(733,702)
Cash and term deposits, beginning of year	886,808	1,620,510
Cash and term deposits, end of year	$ 373,515	$ 886,808
Funds from operations per share (Note 7)	$ 0.03	$ 0.02

See accompanying notes

Notes to Financial Statements

Years ended December 31, 1995 and 1994

The operations of Brymore Oil & Gas Ltd. include the acquisition, exploration and development of petroleum and natural gas reserves and the administration of natural gas sales contracts from dedicated gas reserves to power generation plants.

1. Significant Accounting Policies

(a) Petroleum and Natural Gas Operations

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized into a single cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties is sold, a gain or loss is recorded and reflected in the statement of operations.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

The Company annually applies a ceiling test to capitalized costs to ensure that such costs do not exceed the cost of unproved properties plus undiscounted future net revenues from production of proved reserves at year end product prices less future administrative, financing, site restoration and income tax expenses. Where a ceiling test deficiency occurs and is related to significant acquisitions within the last 24 months, and is not permanent, a write down of petroleum and natural gas properties is not required.

Future site restoration costs are amortized using the unit-of-production method. These costs are based on year end estimates of the anticipated costs of site restoration.

(b) Joint Ventures

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Measurement Uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(d) Flow-through Shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors. To recognize the foregone tax benefits to the Company, the carrying value of the oil and gas properties acquired and the shares issued are recorded net of the tax benefits renounced to shareholders.

(e) Alberta Royalty Tax Credit

Alberta Royalty Tax Credit is recorded as a reduction of royalties paid.

2. Business Acquisition and Amalgamation

Effective December 30, 1994, Consolidated Rideau Resources Corp. ("Consolidated Rideau") acquired all the issued and outstanding shares of Brymore Exploration Ltd. ("Brymore Exploration"). As the former shareholders of Brymore Exploration held, immediately subsequent to the acquisition, more than 50% of the voting shares of the combined entity, Brymore Exploration was deemed the acquirer of Consolidated Rideau. As a result, these financial statements are a continuation of Brymore Exploration, reflecting the consolidation of the results of operations of Consolidated Rideau from the acquisition date. The acquisition of Consolidated Rideau was accounted for using the purchase method. The assets acquired at fair value and the consideration paid have been allocated as follows:

Cash	$ 822
Property and equipment	1,008,045
Working capital deficiency	(196,886)
Bank loan	(188,800)
Provision for site restoration costs	(28,345)
Consideration – Share capital (Note 5)	$ 594,836

Subsequent to the acquisition noted above, Brymore Exploration and Consolidated Rideau amalgamated to form Brymore Oil & Gas Ltd. (the "Company").

3. Property and Equipment

	1995	1994
Petroleum and natural gas properties	$4,468,688	$2,324,006
Tax benefits renounced	(230,000)	(60,000)
Furniture and equipment	57,347	45,884
	4,296,035	2,309,890
Less accumulated depletion and depreciation	(710,702)	(478,397)
	$3,585,333	$1,831,493

Costs of unproved properties excluded from costs subject to depletion and depreciation at December 31, 1995 were $521,376 (1994 – $20,000). During 1995, the Company capitalized $129,771 (1994 – $147,600) of general and administrative expenses relating to exploration and development activities.

As a result of a ceiling test calculation, which was performed with an effective date of December 31, 1995, it was determined that the net recoverable amount calculated under the full cost accounting guideline exceeded the net book value of the Company's petroleum and natural gas properties. The prices used in the ceiling test calculation of December 31, 1995 were $23.58 per barrel of crude oil and $1.31 per thousand cubic feet of natural gas. Depletion and depreciation expense for 1994 includes a ceiling test write-down of $206,363. The ceiling test is a cost recovery test and is not intended to result in an estimate of fair market value.

The provision for future site restoration costs is recorded in the statement of operations as a component of depletion and depreciation (1995 – $14,655; 1994 – nil) and on the balance sheet as a long-term liability. At December 31, 1995, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are approximately $252,000 (1994 – nil).

4. Long-term Debt

	1995	1994
Bank loan	$ 688,870	$ 188,800
Convertible debenture	450,000	–
	1,138,870	188,800
Less current portion	–	(188,800)
	$1,138,870	$ –

Bank Loan

The Company has a $1,100,000 revolving reducing loan facility available with a Canadian chartered bank which bears interest at the bank prime rate plus 1/2 of 1%. The loan is secured by a $2,000,000 demand debenture which provides a first floating charge on all real and personal property of the Company, an assignment of book debts and an undertaking to provide additional fixed charge security if required by the bank. The facility includes provisions for reductions in the amount available to $900,000 on February 1, 1996 and $700,000 on August 1, 1996. The loan is subject to annual review and has a demand feature; however, repayments are not required provided that borrowings do not exceed the borrowing base and other loan covenants are complied with. The Company can utilize the facility through direct borrowings from the bank or through Bankers' Acceptances.

The December 31, 1995 balance of $688,870 is comprised of Bankers' Acceptances at a rate of 7.75%. The December 31, 1994 balance of $188,800 was obtained through direct borrowings.

Convertible Debentures

The unsecured convertible redeemable debentures were issued on December 15, 1995 and bear interest at a rate of 9% per annum. The principal is due on December 31, 2000 with interest payable semi-annually. The debentures are convertible at the option of the holder at any time into common shares of the Company at a conversion price of $0.40 per share. The Company can redeem the debentures after June 30, 1998 provided the common shares of the Company have traded for 20 consecutive days at a price equal to or greater than $0.60 per share.

5. Share Capital

Authorized Unlimited number of common shares, no par value
Unlimited number of first preferred shares, no par value
Unlimited number of second preferred shares, no par value

Issued

	1995		1994	
	Number of Shares	Amount	Number of Shares	Amount
Common Shares				
Balance, beginning of year	12,654,155	$2,606,215	9,934,050	$2,059,302
Common share capital and assigned value of Consolidated Rideau at time of acquisition (Note 2)	–	–	2,720,105	594,836
Private placement on a flow-through basis for cash	945,000	378,000	–	–
Tax benefit relating to renounced expenditures	–	(170,000)	–	–
Share issue costs	–	(7,903)	–	(47,923)
	13,599,155	2,806,312	12,654,155	2,606,215
Class B Non-voting Shares				
Balance, beginning of year	1,260,000	$ 1	1,260,000	$ 1
Redemption of outstanding shares	(1,260,000)	(1)	–	–
	–	–	1,260,000	1
Balance, end of year		$2,806,312		$2,606,216

The 1994 beginning of year number of common shares and class B non-voting shares of 9,934,050 and 1,260,000 shares, respectively, retroactively reflect the conversion of the share capital of Brymore Exploration Ltd. to the Company on the basis of 2.1 shares of the Company for each share of Brymore Exploration Ltd. pursuant to the business combination described in note 2.

Share Capital Offering

In February 1995, the Company completed a $378,000 private placement of units at a price of $0.40 per unit, each unit being comprised of one flow-through common share and one-half of one non-transferrable common share purchase warrant. Pursuant to the offering, the Company issued 945,000 flow-through shares and 472,500 share purchase warrants.

Stock Options

At December 31, 1995, options to purchase 1,330,000 common shares of the Company at $0.40 per share were outstanding. Fifty percent of the options vested on April 27, 1995 and the remaining fifty percent vest on April 27, 1996. These options expire on April 27, 2000. There were no options outstanding at December 31, 1994.

Warrants

At December 31, 1995, 472,500 common share purchase warrants were outstanding. Each warrant entitles the holder to acquire one common share of the Company for $0.45 per share prior to February 23, 1996 and one common share for $0.55 per share thereafter. The warrants expire on February 23, 1997.

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